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IRAN-IRAQ:

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Iran's lack of success thus far in its invasion probably has increased debate among leaders in Tehran about the wisdom of the invasion and what course they should now follow.//

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//Khamenei, together with Prime Minister Musavi and Foreign Minister Velayati, reportedly initially opposed the invasion, preferring instead to seek large reparations from Iraq. All three have omitted mention of the ouster of Iraq's President Saddam Hussein in recent statements of their demands. Other Iranian leaders, however, continue to demand Saddam's ouster as a price for settlement.//

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ISRAEL-LEBANON: Israel Expands Southern Militias

//The Israelis yesterday attacked Palestinian positions in West Beirut and Syrian forces in the Bekaa Valley. Palestinian ambushes of Israeli units are continuing.

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According to an Israeli military spokesman, Israeli aircraft yesterday struck several tank and artillery positions in West Beirut. Palestinian air defense units failed to hit any of the aircraft.

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Comment: //The strikes against Palestinian targets were partly in retaliation for continuing guerrilla actions against Israeli forces. The Israelis also are concerned about what they perceive as increased firing by Palestinian units in West Beirut. In addition, the strikes were intended to remind the Palestinians of Israeli impatience over the lack of a settlement of the PLO issue.//

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Situation in the South

Israeli-supported militia forces commanded by Major Haddad yesterday arrested a Lebanese parliamentary deputy in An Nabatiyah who had been visited by the US Ambassador on Wednesday. Israeli forces also arrested a Lebanese Army officer and a Lebanese Internal Security Force officer in the city. The parliamentary deputy was subsequently released.

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The reasons for the arrests are unknown, but the [redacted] deputy's seizure may be linked to his visit. While the Ambassador was at the deputy's home, Haddad sent two of his men to complain about his exclusion from the meeting. [redacted]

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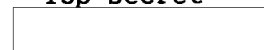
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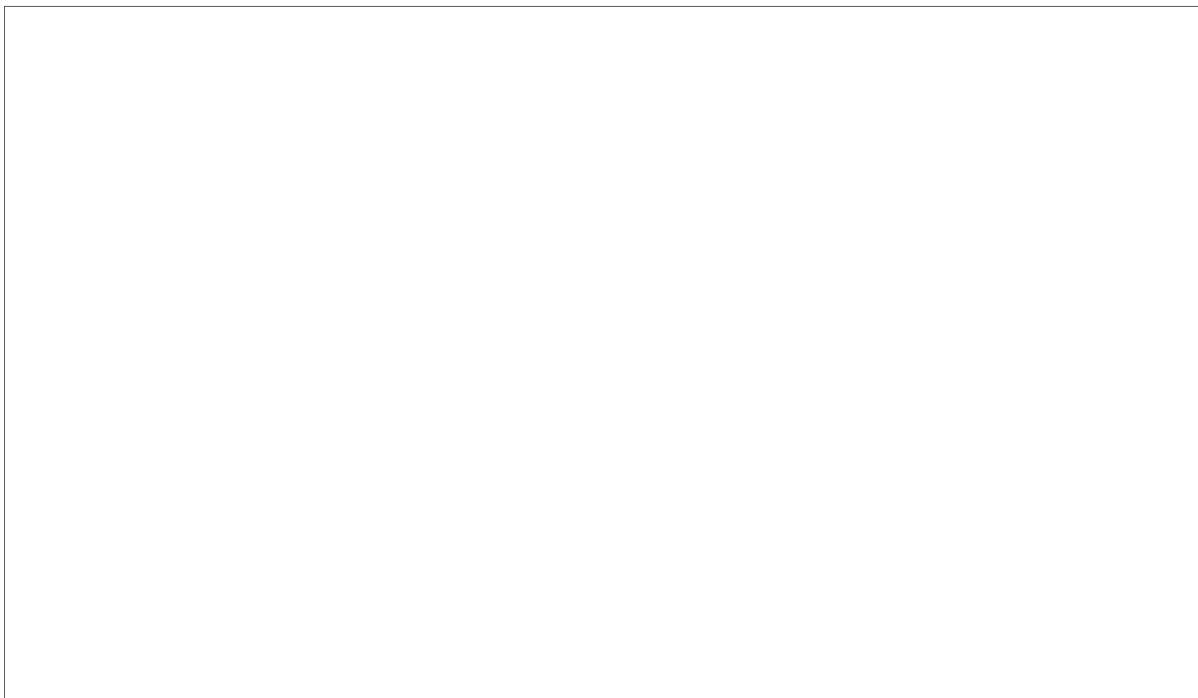


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PHILIPPINES-USSR: Commercial Agreements

During the visit by Mrs. Marcos to the USSR between 5 and 11 July, she signed agreements for the construction of a cement plant in the Philippines, increased Soviet purchases of sugar and coconut products, and expanded scientific and technical exchanges. 

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Comment: The Soviets, in keeping with past practice, gave Mrs. Marcos a warm welcome. Among others, she met with Premier Tikhonov and Foreign Minister Gromyko. The cement project will require the assistance of between 20 and 50 Soviet technicians for an extended period.


Manila will restrict their movements to the area of the plant. 

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HUNGARY: Austerity Program Approved

//Budapest, anticipating IMF requirements, has decided to increase prices for meat and other food items soon and to tighten domestic credit. [REDACTED]

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[REDACTED] although the government recognizes these measures will raise inflation and cause unemployment by closing some enterprises, it hopes the program will result in a \$600 million current account surplus in 1983. Hungary plans to begin negotiations next month on an IMF standby credit that would permit it to meet the conditions of the Bank for International Settlements for additional loans.// [REDACTED]

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Comment: //To remain solvent, Hungary needs \$300 million from the BIS and \$200-300 million from commercial banks. Large IMF credits would help but probably would not be available before December. Budapest hopes Western banks will approve its credit as early as next week, but many bankers may hold back until the BIS provides new funds.// [REDACTED]

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ROMANIA: New Disturbances

Bread shortages led to grain thefts and riots in two small towns late last month, [REDACTED]

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[REDACTED] food shortages, which caused violent disturbances last fall, are worse this summer. Despite rationing and major price increases on food since January, supplies of meat, dairy products, and coffee are particularly scarce. [REDACTED]

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Comment: The new disturbances, although isolated and apparently easily controlled, suggest the people's patience with continued austerity is wearing thin. Tightened security kept public protests in check this spring, but unrest could grow in coming months as the public faces energy cutbacks and the likelihood of another mediocre harvest. [REDACTED]

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UK: No Snap Election

//Prime Minister Thatcher, refusing to exploit her increased popularity since the conflict with Argentina, yesterday ruled out a general election for at least a year. She declared that the government "must be sure that the people are on our side" and suggested that by the fall of 1983 the economy could be strong enough to ensure a Conservative victory.//

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Comment: //Thatcher's statement, which echoes similar comments earlier this summer by Conservative Party chairman Parkinson, will make it politically difficult for the government to shift course and call an election before late 1983. Many Tories will be disappointed Thatcher has foreclosed an option that could have reinforced party discipline and kept the opposition off guard. Party leaders are likely to reverse themselves only in the event of large-scale strikes or other domestic difficulties that could justify an appeal to the electorate. Popular support for the Conservatives is currently higher than it was during the election in 1979 and probably will not be as high again.//

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ARGENTINA: Doubts About Law of the Sea Convention

Argentina is belatedly questioning its support of the Law of the Sea Convention in the aftermath of its defeat in the Falklands. Buenos Aires is concerned the Convention does not prohibit a country from developing the ocean resources of a possession claimed by another country.

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Comment: Under the rules, a nation has to accept the entire Convention or not sign. Failure to sign would preclude Argentina's participation under the Convention in the benefits that might eventually be derived from seabed mining. Most other Latin Americans plan to sign the Convention, and some were leaders in negotiating the final document. Venezuela is the only other Latin American nation to indicate that it will not sign, and this is because of the effect the Convention's provisions would have on the offshore boundary dispute with Colombia.

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SPECIAL ANALYSES

IRAN-IRAQ: Military Strengths and Weaknesses

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//Iraq has substantially more equipment than Iran in nearly every conventional category, but Baghdad's static defensive strategy has permitted Iran to seize the military initiative and use its infantry and artillery to best advantage. Iran has been aided by the incompetence of senior Iraqi officers and the low morale of many Iraqi reserve and militia units. Baghdad's forces, however, appear to be using their strengths more effectively in the battle around Al Basrah than they did earlier this year at Dezful and Khorramshahr, where they suffered humiliating defeats.//

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//The fighting is taking place on a flat, open plain, which is ideal for use of armor and unsuited to massed infantry.

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//The Iraqis have strongly fortified the area and brought in regular Army infantry units rather than the militia and reserve troops they relied on in previous battles.

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//Iran's forces appear to have been overconfident, relying on poor Iraqi morale to cause a collapse of the Iraqi defenses at the beginning of the invasion. As a result, Iranian commanders have made crucial mistakes and Iran now finds itself locked into a set-piece battle that favors defense. Iraq's massed weapons are able to inflict significant losses on Iran's infantry and remaining armor.//

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Ground Forces

//Iran's greatest strength is the fanaticism of its infantrymen, primarily Revolutionary Guards and militia troops, and their effective use in combined arms operations

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The Guard and the militia are at least as numerous as the regular Army and are drawn principally from staunch supporters of the regime. They generally are equipped as light infantry, although some Revolutionary Guard armored units have been formed.//

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//The Revolutionary Guard and militia are used to lead Iranian assaults to achieve initial breakthroughs that are then exploited by regular Army units. Motivated by Shia Islam, which exalts martyrdom, the Guard and militia are willing to suffer extremely heavy casualties in human-wave assaults on Iraqi armored positions.//

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//The incompetence of Iraq's senior commanders has been a major Iraqi weakness. Iraqi generals, many of whom hold their positions because of political loyalty rather than military competence, have been unable in past battles to assess correctly the terrain or anticipate the major avenues of Iranian attacks. Overall direction of the Iraqi defense by senior commanders has been weak, especially their use of reserve forces.//

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//The Iranian officer corps has been heavily purged by the Khomeini regime. Many of the current officers, who have risen through the ranks during the war, appear competent.//

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Armor and Artillery

//Iraq has defeated the Iranians in the few armored battles that have been fought.

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//Iran has had a clear edge in the quality and often the quantity of its artillery support, despite Iraq's larger artillery inventory. The Iranians consistently have concentrated their artillery fire at key points on

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the front while Iraqi fire has been dispersed. Moreover, much of Iran's artillery is self-propelled and able to move rapidly, while most of Iraqi artillery is towed and usually in static positions.//

The Air War

//Both Air Forces have been largely ineffective. The Iranians have been severely weakened by the cutoff of spare parts and replacement parts from the US. They also continue to face a maintenance problem.//

//Tehran has only about 100 operational fighter aircraft remaining and can ill afford to lose many in large raids inside Iraq or over the battlefield. As a result, the Iranians conduct small, high-profile raids similar to the bombing of Baghdad on Wednesday.//

//Iraq still has about 300 operational fighter aircraft and has been receiving replacements from both the USSR and France. Since last fall, the Iraqis have become more aggressive in air operations but have been unable to turn their numerical superiority into an advantage in the ground fighting. Iranian ground attacks always take place at night when the Iraqi Air Force rarely operates.//

//The Iraqis lack the specialized munitions needed to break up Iranian infantry attacks or to hit heavily defended local targets such as bridges. Most Iraqi pilots are poorly trained.//

//Iraq has a clear advantage in air defense but cannot prevent small Iranian air raids. Iran has much less operational air defense equipment but is able to concentrate enough weapons to defend critical targets such as Khark Island.//

//The Iranians cannot prevent large-scale Iraqi raids on Tehran and other cities. Iraqi air attacks in the last week have caused over 1,000 civilian casualties.//

//Since the beginning of the war, Iraqi ground fire has brought down most of the approximately 175 fighter aircraft the Iranians have lost. The Iranians have downed about 100 Iraqi planes.//

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ISRAEL: Economic Impact of the Invasion

The economic costs to Israel of its invasion of Lebanon include higher inflation and temporarily reduced output. A drop in tourism, combined with sluggish exports, will aggravate Israel's balance-of-payments deficit. These economic considerations probably will not be serious enough, however, to influence the duration of the Israeli military's stay in Lebanon.

Finance Minister Aridor estimates the direct costs of the military operation in Lebanon so far total about \$1 billion. The indirect costs, primarily from lost output, are likely to exceed that figure.

Industrial production fell 5 percent in June and would have declined more if many key workers had not been released from reserve duty.
between 65,000 and 75,000 reservists are still on duty--equivalent to roughly 5 percent of the labor force.

Tourism also has been hit hard, with 22 percent fewer tourists visiting Israel in June than a year ago. The tourist trade normally accounts for roughly \$850 million in foreign exchange receipts annually.

Some \$1 billion is to be raised by requiring that virtually all Israeli workers receive 4 percent of their pay in long-term government bonds, a compulsory loan to the government. New taxes imposed on 15 June, including an increase from 12 percent to 15 percent in the value-added tax, will raise another \$600 million.

Economic growth this year probably will be less than would have been the case without the invasion. The head of the Manufacturers' Association estimates GNP growth--which before the invasion seemed likely to reach 4 percent--will be reduced by a maximum of 2 percent. Production will rebound as reservists are released from duty.

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The higher value-added tax will accelerate inflation. Prices rose 6 percent in June, bringing inflation for the first half of the year to an annual rate of 125 percent. Aridor will use the invasion as the excuse for not bringing the inflation rate down to 85 percent this year--a goal he could not have attained in any case.

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Israel's balance-of-payments problems will be intensified by the costs of military operations in Lebanon. Economic recession in Western Europe and the US had already hurt export earnings--receipts in the first half of the year were 5 percent lower than in the same period last year. Reduced output is likely to lower exports after inventories are exhausted.

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Replacement of military equipment, possibly over several years, could cost over \$500 million, according to an Israeli official. Although the reports that Israel has captured military equipment worth several billion dollars probably are exaggerated, the sale of some of this equipment will help offset the costs of reequipping the Israeli military. The market for Israeli-produced equipment will be enhanced because of its effectiveness in combat.

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Aridor said he hopes to raise about \$200 million--roughly equivalent to the increase in bond sales after the war in 1973--from world Jewry to help cover the foreign exchange costs of the war. All government purchases abroad are to be financed by foreign export credit organizations in order to avoid drawing down foreign exchange reserves. Increased aid on better terms presumably will be sought when Israel presents its aid request to the US this fall for fiscal year 1984.

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